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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

establishing a financing instrument for development cooperation

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1. PROBLEM DEFINITION

Poverty remains a major problem in developing countries. While there have been significant advances in the fight against poverty, most of them are off-track in the achievement of the Millennium Development Goals (MDGs) and they are not benefitting from sustainable development. In addition, global challenges continue to be prominent and developing countries were hit hard by the succession of recent crises resulting in social and economic instability, forced migration, food insecurity and an increased vulnerability to external shocks. The environmental and natural resources are increasingly recognized as being vital for sustainable economic growth and poverty reduction. Furthermore, climate change is exacerbating an already fragile situation and risks undoing part of the development achievements if not properly addressed. The EU remains committed to helping developing countries to reduce and ultimately eradicate poverty.

To achieve this objective, the Development Cooperation Instrument (DCI) was established for the 2007-2013 period with the primary and overarching objective of eradicating poverty in partner countries and regions. It is one of the key EU instruments providing development assistance to non-European countries, alongside the European Development Fund (EDF) and the European Neighbourhood Partnership Instrument (ENPI). It is organised into three categories of programmes: (i) bilateral and regional geographic programmes covering cooperation with Asia, Latin America, Central Asia, the Middle East and South Africa; (ii) thematic programmes covering the following issues: investing in people, environment and sustainable management of natural resources, Non-State Actors and local authorities, food security, and migration and asylum; and (iii) sugar accompanying measures.

New challenges, together with the priorities set out in the Europe 2020 Strategy, have prompted the Commission to make proposals to review and adapt the EU's development policy through the upcoming Communication "Increasing the Impact of EU Development Policy: An Agenda for Change". The various reviews undertaken have also highlighted a number of shortcomings within the DCI while acknowledging its overall added value and its contribution to the achievement of the MDGs. On the aforementioned basis, the following problems in the current DCI regulation have been identified:

- (1) The DCI does not fully take into account the objectives of the latest trends of EU development policy.
- (2) The world has changed since 2007 and a number of current beneficiaries of the DCI have since emerged as new world powers and have themselves become donors. The DCI does not ensure sufficient differentiation amongst its beneficiaries with regard to economic and social disparities amongst and inside partner countries.
- (3) The DCI does not sufficiently take into account partner countries' progress on democratisation and respect for basic human rights.
- (4) Supporting cross-regional or continent-wide initiatives has proved difficult given the current architecture of external assistance instruments, in particular regarding the implementation of the Joint Africa-EU strategy.

- (5) Thematic programmes are not sufficiently flexible and are too fragmented to respond to recent global crises or to international commitments taken at the highest political level.
- (6) The specific needs of countries in crisis, post-crisis and fragile situations do not sufficiently feature in the current DCI, thus not always allowing a swift EU response to a rapidly evolving situation.
- (7) The DCI suffers from an overall lack of flexibility, as it does not foresee un-programmed funds to be used in response to unforeseen needs.
- (8) The current programming process of the DCI is too complex and rigid. For example, it does not permit the alignment of the EU programming cycle and strategy to those of its partners, and it also does not sufficiently facilitate joint programming with Member States, as required by the aid effectiveness agenda. It does not provide a sufficient legal basis for using innovative measures for the delivery of aid such as mechanisms for blending loan- and grant-based assistance or public-private partnerships.

2. ANALYSIS OF SUBSIDIARITY

As the world's largest donor, the EU and Member States provide more than half (56%) of global aid to developing countries. The EU provides aid to the poorest people on the planet in more than 150 countries worldwide and is committed to achieving the MDGs on time by the end of 2015. The official development aid managed by the European Commission alone represents about 20% of total EU aid so far. The EU is in a uniquely neutral and impartial position to deliver external action on behalf of and with Member States, giving it enhanced credibility in the countries where it works in. With 27 Member States acting with common policies and strategies, the EU has a critical mass to respond to global challenges, in particular the achievement of the MDGs.

3. OBJECTIVES OF THE EU INITIATIVE

The general objectives of the successor to the DCI will remain focused on (i) reducing and, in the long term, eradicating poverty in partner countries and regions as well as on (ii) promoting democracy, the rule of law, human rights and good governance. In line with the proposed revised EU development policy, a third general objective: (iii) supporting inclusive and sustainable growth-oriented development will also be introduced.

The successor to the DCI will be based on the existing instrument, which has demonstrated its relevance in contributing to poverty reduction and, in the long term, to poverty eradication, while addressing the problems identified under part 1.

4. POLICY OPTIONS

Maintaining the DCI without any amendment is the first option considered (option 1 = no change).

Under option 2 (amend the DCI regulation), two alternative scenarios were considered against the *status quo*:

- Aligning the objectives of the instrument with the new trends in EU development policy, considering the strengthening of development policy in the Lisbon Treaty and latest trends in development policy;
- Ensuring significant differentiation by focusing EU cooperation on a limited number of countries, differentiating through allocated amounts and altering the type of assistance according to a defined set of criteria;
- Strengthening the inclusion of good governance, democracy, human rights and the rule of law in the fund allocation mechanism;
- Establishing a Pan-African programme within the DCI;
- Increasing the flexibility and reducing the fragmentation of thematic programmes through a reduction of their number;
- Allowing a more flexible (re-)programming process, tailor made ad-hoc reviews, and specific implementation procedures for countries in crisis, post-crisis and fragile situations;
- Introducing further flexibility in fund allocations within the DCI through new mechanisms such as an un-programmed reserve;
- Increasing the flexibility of and simplifying the programming process to facilitate joint programming and alignment to programming cycle of partner countries.

5. ASSESSMENT OF IMPACTS

Option 1, continuing the status quo, would not address the problems emerging from past experience, mentioned under Section 1.

Option 2, developing the DCI further, would allow the following:

- aligning the objectives of the successor to the DCI with the new trends in EU development policy;
- applying a clear differentiation amongst partner countries in order to fight poverty more effectively and giving the EU more leverage and impact in countries where its assistance is needed the most;
- further including good governance, democracy, human rights and the rule of law in EU assistance in order to ensure more effective cooperation and dialogue with partner countries regarding these values;
- facilitating a more efficient implementation of the Joint Africa-EU Strategy and, therefore, facilitating the achievement of EU political objectives within the African continent;

- streamlining thematic programmes to provide the flexibility necessary for the EU to be responsive to global challenges;
- putting in place flexible mechanisms to facilitate a more effective EU response to rapidly evolving situations in crisis, post-crisis and fragile states;
- enhancing the flexibility of fund allocation to address evolving situations in the external arena due to political circumstances, crises or new challenges; and
- improving the effectiveness of EU aid by simplifying and making the programming and implementation procedures more flexible in order to enable joint programming and to align to partner countries' programming cycles, as well as to promote the use of innovative measures for aid delivery.

6. COMPARISON OF OPTIONS

The first option would not allow the EU to meet the objectives described under paragraph 3. Under option 2, for each specific objective the alternative sub-option B is preferred over sub-option A as they tackle all problems identified and respond to the objectives defined under section 3 more appropriately. This will allow for incorporating the revised orientations of EU development policy into the successor to the DCI and thus further increasing the effectiveness and the impact of EU assistance to developing countries.

7. MONITORING AND EVALUATION

The DCI is an enabling Regulation establishing the essential elements and the basis for EU intervention. The exact actions are defined through multiannual programming and annual action programmes detailing the activities to be carried out by the EU, including the objectives pursued by the actions in question and the expected results. Specific indicators are fixed at that moment, bearing in mind the particularities of the action in question.

Internationally agreed targets and indicators on the MDGs and climate change are already known. For instance, for the overarching objective for reducing and, in the long term, eradicating poverty in partner countries and regions, the MDG indicators for Goal 1 may be used.

Expenditure that promotes climate action or energy efficiency as well as the protection and sustainable management of biodiversity and ecosystems, will be tracked based on the established OECD methodology ('Rio markers').